

**Okmulgee County Rural Water District No. 5
Henryetta, Oklahoma**

Financial Statements and
Reports of Independent Auditor

September 30, 2012

Audited by

**SANDERS, BLEDSOE & HEWETT
CERTIFIED PUBLIC ACCOUNTANTS, LLP**

Broken Arrow, Oklahoma

**Okmulgee County Rural Water District No. 5
Seminole, Oklahoma**

Board of Directors
September 30, 2012

Chairman

Bill Mathis

Vice-Chairman

D.D. Chancey

Secretary/Treasurer

Fred Clay

Directors

Patricia Hodge

Jeremy Johnson

Clifford Porter

Brad Foster

Manager

Michael Page

Bookkeeper

Yvonna Coulter

**P.O. Box 176
Henryetta, Oklahoma 74437
(918) 652-2308**

Okmulgee County Rural Water District No. 5
Henryetta, Oklahoma

Table of Contents
September 30, 2012

| | <u>Page</u> |
|--|-----------------|
| Board of Directors | <i>i</i> |
| Independent Auditor's Report | 1 |
| Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 2 |
| Schedule of Audit Results | 4 |
| Combined Financial Statements: | |
| Statements of Net Assets | 5 |
| Statements of Revenues, Expenses and Changes in Net Assets | 6 |
| Statements of Cash Flows | 7 |
| Notes to the Financial Statements | 8 |
| Other Supplementary Information: | |
| Balance Sheet | 13 |
| Statement of Income and Retained Earnings | 14 |



SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

Independent Auditor's Report

Board of Directors
Okmulgee County Rural Water District No. 5
Henryetta, Oklahoma

We have audited the accompanying financial statements of the business-type activities of the Okmulgee County Rural Water District No. 5 (the District), Henryetta, Oklahoma, as of and for the year ended September 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District as of September 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management has elected to omit the Management Discussion and Analysis, which is considered required supplementary information that is normally subjected to auditing procedures. Due to this omission, the usefulness and accessibility of the financial statements are limited to the District's management. The omission of this information does not affect the opinion expressed on the financial statements as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2012, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining and individual fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole on the basis of accounting described in Note 1.

Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

December 11, 2012



SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

**Report on Internal Control Over Financial Reporting and on Compliance and Other
Matters Based on an Audit of Financial Standards Performed in Accordance with
Government Auditing Standards**

Board of Directors
Okmulgee County Rural Water District No. 5
Henryetta, Oklahoma

We have audited the combined financial statements of Okmulgee County Rural Water District No. 5 (the District), Okmulgee, Oklahoma, as of and for the year ended September 30, 2012, which, except for the omission of the Management Discussion and Analysis, collectively comprise the District's basic financial statements and have issued our report thereon dated December 11, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepting accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in a more than a remote likelihood that a material misstatement of the financial statements will not be presented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Sanders, Bledsoe & Hewett". The signature is written in a cursive, flowing style.

Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

December 11, 2012

Okmulgee County Rural Water District No. 5
Henryetta, Oklahoma
Schedule of Audit Results
September 30, 2012

Section 1 – Summary of Auditor’s Results

1. An unqualified opinion report was issued on the financial statements.
2. The audit disclosed no reportable conditions in the internal controls.
3. The audit disclosed no instances of noncompliance.

Section 2 – Findings relating to the financial statements required to be reported in accordance with GAGAS:

NONE

OKMULGEE COUNTY RURAL WATER DISTRICT NO. 5
Statement of Net Assets
September 30, 2012

ASSETS

Current Assets:

| | |
|---------------------------|----------------|
| Cash and cash equivalents | \$ 114,170 |
| Investments | 80,000 |
| Accounts receivable | 17,648 |
| Prepaid insurance | <u>5,192</u> |
| Total current assets | <u>217,010</u> |

Noncurrent Assets:

| | |
|------------------------------------|------------------|
| Capital Assets- | |
| Water systems, net of depreciation | <u>1,258,867</u> |

| | |
|--------------|------------------|
| Total Assets | <u>1,475,877</u> |
|--------------|------------------|

LIABILITIES

Current Liabilities:

| | |
|-----------------------------------|---------------|
| Accounts payable | 6,205 |
| Accrued interest | 586 |
| Renters deposits | 4,129 |
| Current portion of long-term debt | <u>18,692</u> |
| Total current liabilities | <u>29,612</u> |

Noncurrent Liabilities:

| | |
|----------------|----------------|
| Long-term debt | <u>399,474</u> |
|----------------|----------------|

| | |
|-------------------|----------------|
| Total Liabilities | <u>429,086</u> |
|-------------------|----------------|

NET ASSETS

| | |
|---|---------------------|
| Invested in capital assets, net of related debt | 840,701 |
| Restricted for debt service | 34,278 |
| Unrestricted assets | <u>171,812</u> |
| Total Net Assets | <u>\$ 1,046,791</u> |

The accompanying notes to the financial statements are an integral part of this statement

OKMULGEE COUNTY RURAL WATER DISTRICT NO. 5
Statement of Activities
For The Year Ended September 30, 2012

| | |
|---|----------------------------|
| Operating Revenues: | |
| Water sales | <u>\$ 222,541</u> |
| Operating Expenses: | |
| Water purchases | 24,793 |
| Salaries and taxes | 48,708 |
| Repairs and maintenance | 27,305 |
| Vehicle expense | 5,794 |
| Telephone | 2,391 |
| Insurance | 7,421 |
| Dues and fees | 2,194 |
| Office expenses | 8,080 |
| Professional fees | 4,795 |
| Utilities | 9,279 |
| Contract labor | 328 |
| Water tests | 4,273 |
| Depreciation | <u>33,576</u> |
| Total expenses from operations | <u>178,937</u> |
| Operating Income (Loss) | 43,604 |
| Non-Operating Revenues (Expenses): | |
| Interest income | 903 |
| Interest paid on long-term debt | <u>(16,166)</u> |
| Total non-operating revenues (expenses) | <u>(15,263)</u> |
| Change in Net Assets | 28,341 |
| Total Net Assets, beginning of period | <u>1,018,450</u> |
| Total Net Assets, end of period | <u><u>\$ 1,046,791</u></u> |

The accompanying notes to the financial statements are an integral part of this statement

OKMULGEE COUNTY RURAL WATER DISTRICT NO. 5
Statement of Cash Flows
For the Year Ended September 30, 2012

Cash Flows from Operating Activities:

| | |
|---|-----------------|
| Receipts from customers | \$ 226,879 |
| Payments to employees | (48,827) |
| Payments to vendors | <u>(97,265)</u> |
| Net Cash Provided by Operating Activities | <u>80,787</u> |

Cash Flows from Capital and Related Financing Activities:

| | |
|---|-----------------|
| Principal paid on long-term debt | (18,064) |
| Interest paid on long-term debt | <u>(16,167)</u> |
| Net Cash Provided by (used in) Financing Activities | <u>(34,231)</u> |

Cash Flows from Investing Activities:

| | |
|--------------------------------|------------|
| Interest earned on investments | <u>903</u> |
|--------------------------------|------------|

Net increase (decrease) in cash 47,459

Cash and cash equivalents, beginning of period 66,711

Cash and cash equivalents, end of period \$ 114,170

Reconciliation of operating income (loss) to net cash provided
by operating activities:

| | |
|---|-------------------------|
| Operating Income | \$ 43,604 |
| Adjustments to reconcile net income to net cash provided (used) by operating activities: | |
| Depreciation Expense | 33,576 |
| Change in assets and liabilities: | |
| (Increase) decrease in accounts receivable | 4,766 |
| (Increase) decrease in prepaid insurance | (126) |
| Increase (decrease) in accounts payable | (1,135) |
| Increase (decrease) in accrued interest | (48) |
| Increase (decrease) in renters deposits | <u>150</u> |
| Net cash provided by operating activities | <u><u>\$ 80,787</u></u> |

The accompanying notes to the financial statements are an integral part of this statement

OKMULGEE COUNTY RURAL WATER DISTRICT NO. 5
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED SEPTEMBER 30, 2012

Note 1 – Significant Accounting Policies

Basis of Accounting

The accrual basis of accounting is followed for all accounts. Revenues are recorded when earned and expenses are recognized when incurred. This policy is in accordance with generally accepted accounting principles.

Cash

The District's accounts at September 30, 2012, and are comprised as follows:

| | |
|--|-------------------------|
| American Exchange Bank, Henryetta, OK- | |
| Reserve account | \$ 30,119 |
| Construction account | 25 |
| Operating account | <u>83,831</u> |
| Total | <u><u>\$113,975</u></u> |

The District's cash deposits at September 30, 2012, are categorized to give an indication of the level of risk assumed by the district at year-end.

Investments

The District had the following investments at September 30, 2012:

| | |
|--|-------------------------|
| American Exchange Bank, Henryetta, OK- | |
| Certificate of deposit No. 13960, due 11-24-12, @ .95% | \$ 10,000 |
| Certificate of deposit No. 14813, due 11-13-12, @ .95% | 5,000 |
| Certificate of deposit No. 18709, due 11-8-12, @ 1.00% | 5,000 |
| Certificate of deposit No. 20722, due 10-4-12, @ 1.00% | 50,000 |
| Certificate of deposit No. 20399, due 10-4-12, @ 1.00% | 5,000 |
| Certificate of deposit No. 18035, due 1-4-13, @ .80% | <u>5,000</u> |
| Total | <u><u>\$ 80,000</u></u> |

Accounts Receivable

Billings for accounts receivable at September 30, 2012, were \$17,648. No computation was made for allowance for doubtful accounts, which is not considered to be material to the financial statements.

OKMULGEE COUNTY RURAL WATER DISTRICT NO. 5
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED SEPTEMBER 30, 2012

Note 1 – Significant Accounting Policies – cont’d

Fixed Assets

Capital (fixed) assets are valued at cost, and depreciation is computed by use of the straight-line method. The estimated useful life of these assets range from five to 60 years.

Capital (fixed) asset information for the 2011-12 fiscal year is as follows:

| | Balance at Oct. 1, 2011 | Additions | Deductions | Balance at Sep. 30, 2012 |
|------------------------------------|----------------------------|------------------------|-----------------|-----------------------------|
| Water distribution system | \$ 1,724,009 | | | 1,724,009 |
| Buildings | 25,574 | | | 25,574 |
| Equipment | 28,128 | | | 28,128 |
| Total depreciated capital assets | <u>1,777,711</u> | <u>-</u> | <u>-</u> | <u>1,777,711</u> |
| Less accumulated depreciation for: | | | | |
| Water distribution system | 461,940 | 28,734 | | 490,674 |
| Buildings | 13,213 | 426 | | 13,639 |
| Equipment | 10,116 | 4,415 | | 14,531 |
| Total accumulated depreciation | <u>485,269</u> | <u>33,575</u> | <u>-</u> | <u>518,844</u> |
| Capital assets, net | <u><u>\$ 1,292,442</u></u> | <u><u>(33,575)</u></u> | <u><u>-</u></u> | <u><u>1,258,867</u></u> |

Inventories

The District does not include an inventory amount on its financial statements. All items purchased for inventory are expensed immediately.

Prior Year Information

Prior year information is shown on the financial statements for comparative purposes only. No assurance is given on prior year amounts.

Federal Income Tax

The District is exempt from federal and state income taxes.

OKMULGEE COUNTY RURAL WATER DISTRICT NO. 5
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED SEPTEMBER 30, 2012

Note 1 – Significant Accounting Policies – cont'd

Collateral Pledged

Deposit Categories of Credit Risk

(A) Insured by Federal Deposit Insurance

(B) Collateralized with securities held by the pledging financial institution's trust department or agent in the District's name

(C) Uncollateralized

Deposit Categories of Credit Risk:

| | Category | | | Bank | Carrying |
|-------------|-------------------|----------|----------|----------------|----------------|
| | (A) | (B) | (C) | Balance | Amount |
| Cash | \$ 114,909 | | | 114,909 | 113,975 |
| Investments | 80,000 | | | 80,000 | 80,000 |
| Totals | <u>\$ 194,909</u> | <u>0</u> | <u>0</u> | <u>194,909</u> | <u>193,975</u> |

Note 2 – Long-Term Debt

Notes payable consist of four notes to the Office of Rural Development, one note to the Okmulgee County Industrial Authority and one capital lease.

The following is a summary of the long-term debt transactions of the District for the year ended September 30, 2012:

| | Notes Payable |
|-----------------------------|-------------------|
| Balance, October 1, 2011 | \$ 436,230 |
| Additions/ Retirements | <u>(18,064)</u> |
| Balance, September 30, 2012 | <u>\$ 418,166</u> |

OKMULGEE COUNTY RURAL WATER DISTRICT NO. 5
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED SEPTEMBER 30, 2012

The notes payable at September 30th, are detailed as follows:

| | |
|---|--------------------------|
| Note No. 91-04, Rural Economic & Community Development, issued for \$150,000, dated 6-25-80, at 5.00% interest due in monthly installments of \$737 | \$ 51,254 |
| Note No. 91-06, Rural Economic & Community Development, issued for \$65,000, dated 6-25-80, at 5.00% interest due in monthly installments of \$320 | 21,701 |
| Note No. 91-07, Rural Economic & Community Development, issued for \$305,300, dated 5-14-04, at 4.375% interest, due in monthly installments of \$1,362 | 279,585 |
| Note to Okmulgee County Industrial Authority, CDBG, issued for \$105,000, dated 5-28-02, at 0% interest, due in monthly installments of \$438 | <u>65,625</u> |
| Total | 418,165 |
| Less: Current maturities of long-term debt | <u>(18,692)</u> |
| Total Long-Term Debt | <u><u>\$ 399,473</u></u> |

The scheduled maturities for the notes and lease payments are detailed as follows:

| <u>Year Ended</u> | <u>Principal</u> | <u>Interest</u> | <u>Totals</u> |
|-------------------|--------------------------|-----------------------|-----------------------|
| 2013 | \$ 18,692 | 15,586 | 34,278 |
| 2014 | 19,352 | 14,926 | 34,278 |
| 2015 | 20,045 | 14,232 | 34,277 |
| 2016 | 20,772 | 13,506 | 34,278 |
| 2017 | 21,535 | 12,743 | 34,278 |
| 2017-22 | 76,528 | 53,186 | 129,714 |
| 2022-27 | 48,621 | 46,223 | 94,844 |
| 2027-32 | 44,158 | 37,561 | 81,719 |
| 2032+ | <u>148,463</u> | <u>41,102</u> | <u>189,565</u> |
| Totals | <u><u>\$ 418,166</u></u> | <u><u>249,065</u></u> | <u><u>667,231</u></u> |

OKMULGEE COUNTY RURAL WATER DISTRICT NO. 5
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED SEPTEMBER 30, 2012

Note 2 – Long-Term Debt

Debt Service Reserve

In accordance with the loan agreement with Rural Development, the District is required to build and maintain a Debt Service Reserve Fund with a balance of no less than \$34,560 as per the Trust Agreement, which is equal to 12 months payments on the notes. The total amount of the restricted assets represents the Reserve account cash and CD investments held at American Exchange Bank for the purpose of making future principal and interest payments. The balance at the end of September 30, 2012 was \$110,119.

Note 3 – Accumulated Unpaid Vacation and Sick Pay

At September 30, 2012, no determination of the aggregate dollar value of vacation and sick pay had been made.

Note 4 – Subsequent Events

The District was awarded a REAP Grant from the Oklahoma Water Resources Board in the amount of \$53,250. The funds will be used to construct a new water well and water line extensions. The funds were awarded on July 17, 2012, but were not received during the 2011-12 fiscal year.